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In early June, President Alvaro Arzu's administration sold the first of 14 state firms slated for sale or concession to the private sector. The government plans to privatize another seven firms and assets this year, including the telephone monopoly Empresa Guatemalteca de Telecomunicaciones (GUATEL). Nevertheless, opposition to the privatization program is widespread, with legal challenges and labor protests bogging down the sale of many firms.

Since privatization initiatives began to gain force in the late 1980s, Guatemala has been one of the slowest of the Central American countries to embrace such reforms, largely because of grassroots opposition. Until this year, the only company to be privatized was the former state airline AVIATECA, sold by ex-president Vinicio Cerezo's administration (1986-1990). Timid efforts at privatization by two consecutive governments since then were completely blocked by opposition from political parties and labor groups (see NotiSur, 05/16/96).

Government to sell 14 state firms

In February of this year, however, the Arzu administration announced its determination to sell off or lease 14 state companies during 1997 and 1998. The firms slated for sale include GUATEL, the railroad system Ferrocarriles de Guatemala (FEGUA), the Instituto Nacional de Electrificacion (INDE), the metropolitan-based Empresa Electrica de Guatemala (EEGSA), the Instituto Tecnico de Capacitacion y Productividad (INTECAP), the Instituto Guatemalteco de Turismo (INGUAT), the Instituto Nacional de Comercializacion Agricola (INDECA), and the Planta Procesadora de Productos Lacteos (PROLAC).

In addition, the government hopes to partially privatize the Instituto Guatemalteco de Seguridad Social (IGSS) by reforming the law to allow private firms to compete with IGSS. Finally, another five firms will be leased to private operators: the national postal service, the Pacific Coast port of Santo Tomas de Castilla, the Atlantic Coast Puerto Quetzal, and the country's two airports La Aurora in the capital and Santa Elena in the far-northern El Peten department. When it announced its plan in February, the government said it would sell FEGUA and GUATEL this year, as well as two assets owned and run by EEGSA an electric generating plant (La Laguna) and a turbine generator. In addition, the government plans to lease the ports and airports before year- end.

All other firms, however, are slated for sale in 1998. National railroad sold in June; telephone company next in line On June 6, the government awarded a 50-year concession to operate FEGUA to the US-based Railroad Development Corporation (RDC). The new owner, which currently operates railroads in three other Latin American countries, expects to invest some US$45 million during the first five years of the contract to reconstruct the national railroad system, beginning with an initial US$10 million investment to get the Atlantic Coast- Guatemala City line functioning by 1998. The national railroad dates back nearly a century, with most of the system's infrastructure almost

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useless in its current state. Still, RDC has inherited nearly 1,000 km of railway lines that transverse the country from east to west, making it the most extensive railroad system in Central America.

To win the contract, RDC agreed to pay the government 5% of its gross profits during the first five years of operation, and 10% during the following 45 years. In addition, the company must pay income and other taxes, making the concession which can be extended for ten-year periods indefinitely potentially very profitable for the government. With FEGUA sold, GUATEL is next in line for privatization. In March, the government hired the US financial firm J.P. Morgan to manage the sale of GUATEL stock to foreign and domestic investors. Since then, however, little has been revealed about J.P. Morgan's plans, including how much stock will actually be sold, and whether any of it will be sold on the domestic stock market or if the sale will be handled entirely on foreign exchanges. The company, estimated to be worth at least US$200 million, has attracted the interest of at least six foreign firms, including US-based companies MCI and GTE, Spain's Telefonica Internacional, Italy's ESTEL, Mexico's Telmex, and France Telecom.

The government says it will open the firm to bidding from interested buyers by July 15 at the latest, with the sale scheduled to be completed by Aug. 15. To make GUATEL more appealing to potential buyers and to attract other companies to set up new telecommunications services in the country independent of GUATEL in February the government raised domestic telephone rates by nearly 2000%. Under the former rates, GUATEL had been charging extremely high tariffs on international calls to subsidize domestic services.

As a result, consumers were paying a flat monthly fee of less than US$1.00 for practically unlimited domestic calls, while paying US$3.00 per minute on calls to the US during peak hours and US$2.50 per minute on off-peak hours. Under the new rate structure, consumers now pay about US$0.03 cents per minute on local domestic calls and about US$0.06 cents on long-distance domestic calls, making GUATEL's local services one of the most expensive in Latin America. Calls outside the country, meanwhile, were reduced to about one-fifth the former rates.

After the GUATEL sale, the government plans to sell the two EEGSA assets, La Laguna and the turbine generator. According to EEGSA spokespersons, 17 foreign and domestic companies have expressed interest in those assets, the sale of which is expected to bring in more than US$33 million. In addition, the government may begin selling some shares in EEGSA before year-end, although the sale of all government stock in the company would not be completed until next year. As for the ports and airports, despite the government plan to lease them this year, those transactions will likely be pushed off until the first semester of 1998.

Labor groups and political parties oppose privatization

Notwithstanding the government's determination to push forward with privatization, opposition to the sale of public assets remains widespread in Guatemala. In a national-level opinion poll conducted by the CID-Gallup firm in March, 57% of those surveyed said they were against privatization of any public service, compared with only 14% who said they either wholly or partially favored the program. Opposition parties in Congress have unanimously opposed the government's policies, with the governing Partido de Avanzada Nacional (PAN) which has an absolute majority voting alone to approve privatization laws. In March, for example, PAN unilaterally passed a new

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Ley de Compras y Contrataciones, which grants state firms autonomous decisionmaking powers to lease services to private companies or sell off stock.

Opposition parties are now challenging the law in the courts as a violation of the Constitution, since the sale of state assets must be approved by a two-thirds majority in Congress, and the new law was only approved by a simple majority. For their part, labor groups have mounted huge demonstrations against the privatization program. In March, the country's largest labor confederations led thousands of union activists in two protest rallies in front of the National Palace, and they promised to organize a continuous, nationwide movement if the government did not open negotiations with grassroots groups.

In response, the government convoked a national dialogue to discuss general government policies, among which are privatization plans. But the government is not bound by the dialogue, which began in mid-May, and the Arzu administration has not interrupted its privatization calendar for the year, despite the opening of talks with opposition groups. [Sources: Spanish news service EFE, 03/05/97; La Hora (Guatemala), 04/11/97; Siglo Veintiuno (Guatemala), 04/04/97, 04/08/97, 04/09/97, 04/11/97, 04/17/97, 05/12/97, 05/13/97; Notimex, Agence France-Presse, 05/29/97; Prensa Libre (Guatemala), 01/22/97, 01/24/97, 01/31/97, 02/02/97, 02/03/97, 02/05/97, 02/12-14/97, 02/18/97, 02/21/97, 02/28/97, 03/05- 09/97, 03/15/97, 03/18/97, 03/21/97, 05/06/97, 05/15/97, 05/16/97, 05/22/97, 05/23/97, 05/27-30/97, 06/03/97, 06/05- 07/97]

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